

Summary

Recently enacted legislation and the continued sluggish behavior of the U.S. economy have reduced the projected federal budget surpluses for fiscal year 2001 and future years. The Congressional Budget Office (CBO) projects that the total budget surplus in fiscal year 2001 will be \$153 billion--\$122 billion lower than CBO estimated in May. About two-thirds of the decrease results from new legislation; one-third comes from a weaker economy and other factors. Despite that drop, if the \$153 billion surplus materializes in 2001, it will equal 1.5 percent of gross domestic product (GDP), the second largest surplus as a share of the economy since 1951.

With a smaller total surplus, CBO now projects a small on-budget deficit for this year. (The on-budget accounts exclude the spending and revenues of Social Security and the Postal Service.) If current tax and spending policies are maintained and the economy performs as CBO estimates, CBO projects small deficits or surpluses in on-budget accounts for the next four years; however, steadily increasing on-budget surpluses reemerge by the middle of the decade. The projected surpluses would allow all public debt that is available for redemption to be retired by 2010.

The Budget Outlook

For the five years from 2002 through 2006, CBO projects surpluses totaling \$1.1 trillion, which come almost entirely from off-budget accounts (see [Summary Table 1](#)). For the 10-year period through 2011, CBO estimates that under current policies, surpluses will total \$3.4 trillion. Social Security makes up about three-quarters of that total. In 2010, the on-budget surplus reaches 1 percent of GDP, and the total surplus grows to 3 percent of GDP. Those estimates should be viewed cautiously, however, because future economic developments, technical estimating errors, and future legislative actions could produce substantial deviations.⁽¹⁾

Summary Table 1.

The Outlook for the Budget Under Current Policies (By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	Total, 2002- 2006	Total, 2007- 2011	Total, 2002- 2011
On-Budget Surplus or Deficit (-)	87	-9	2	-18	-3	21	47	49	799	847
Off-Budget Surplus ^a	<u>150</u>	<u>162</u>	<u>174</u>	<u>190</u>	<u>204</u>	<u>224</u>	<u>242</u>	<u>1,034</u>	<u>1,516</u>	<u>2,549</u>
Total Surplus	236	153	176	172	201	244	289	1,082	2,314	3,397

SOURCE: Congressional Budget Office.

a. Off-budget surpluses comprise surpluses in the Social Security trust funds as well as the net cash flow of the Postal Service.

Total surpluses for the 2002-2011 period are \$2.2 trillion less than CBO projected in May, when it last published its budget baseline (see [Summary Table 2](#)). Legislative changes account for \$1.8 trillion of that amount.

Summary Table 2.**Changes in CBO's Baseline Projections of the Surplus Since May 2001 (By fiscal year, in billions of dollars)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2002- 2006	Total, 2002- 2011
Total Surplus as Projected in May 2001	275	304	353	400	437	508	578	641	718	806	883	2,002	5,629
Changes													
Legislative													
Tax act ^a	-74	-38	-91	-108	-107	-135	-152	-160	-168	-187	-130	-479	-1,275
Other ^b	-7	-10	-8	-7	-8	-8	-8	-8	-8	-9	-9	-41	-83
Debt service ^c	*	-4	-9	-16	-23	-31	-41	-53	-65	-79	-92	-84	-413
Subtotal	-81	-52	-107	-131	-138	-174	-201	-221	-241	-274	-230	-603	-1,771
Economic	-25	-48	-54	-50	-40	-31	-23	-16	-9	-6	-5	-224	-283
Technical ^d	-16	-27	-20	-18	-15	-13	-13	-16	-17	-18	-19	-93	-177
Total	-122	-128	-182	-198	-192	-219	-238	-253	-268	-299	-254	-920	-2,232
Total Surplus as Projected in August 2001	153	176	172	201	244	289	340	389	450	507	628	1,082	3,397

SOURCE: Congressional Budget Office.

NOTE: * = less than \$500 million.

a. The Economic Growth and Tax Relief Reconciliation Act of 2001 will reduce revenues by \$1,186 billion and increase outlays by \$88 billion between 2002 and 2011.

b. Mostly the 2001 Supplemental Appropriations Act, along with recent legislation that provides additional funds in 2001 for agricultural producers.

c. Reflects only the change in debt-service costs resulting from legislative actions. Other effects on debt-service costs are included under economic and technical changes.

d. Changes not directly driven by new legislation or by changes in the components of CBO's economic forecast.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) is estimated to reduce revenues by \$70 billion in 2001 and nearly \$1.2 trillion over the 2002-2011 period. That law changed numerous tax provisions, including establishing a 10 percent tax bracket, lowering income tax rates, increasing tax credits for children, repealing the estate tax, lessening the so-called marriage penalty, raising the limits on contributions to retirement accounts, and enhancing education incentives. In addition, the law increases outlays for refundable tax credits by \$4 billion in 2001 and \$88 billion between 2002 and 2011.

Other legislation will also increase projected outlays through 2011. Providing additional assistance to farmers will increase spending by \$5.5 billion in 2001, and the 2001 Supplemental Appropriations Act is projected to boost spending by \$83 billion from 2002 through 2011. As a result of all legislative changes, interest payments will increase

by \$413 billion over the next 10 years, CBO estimates.

Lower projections of economic growth over the next few years, along with other revisions to the economic forecast, will diminish surpluses by \$0.3 trillion between 2002 and 2011, according to CBO's projections. (Those revisions reflect changes in the economic outlook since January, when CBO last updated its economic assumptions.) Technical changes (those not driven by new legislation or by changes in the components of CBO's economic forecast) further reduce surpluses by nearly \$200 billion.

The Economic Outlook

CBO has revised its economic forecast to reflect the weakness in the U.S. economy during the first half of 2001. Although economic growth has slowed nearly to a standstill, CBO believes that the economy will narrowly avoid recession and recover gradually next year. CBO now expects that the levels of both nominal and real (inflation-adjusted) GDP will be lower in 2001 and 2002 than it anticipated in January. CBO also has raised its estimates of the unemployment rate and long-term interest rates for the next few years and lowered its estimate of short-term interest rates. (CBO's economic forecast does not incorporate the revisions in GDP and related measures that were published in the Bureau of Economic Analysis' national income and product accounts at the end of July, after CBO had completed its forecast. Incorporating those revisions could move budget projections in either direction but probably not by very much.)

CBO's current forecast assumes that growth of real GDP will average 1.7 percent this calendar year and 2.6 percent next year--for both years, those rates are about three-quarters of a percentage point lower than CBO estimated in January (see [Summary Table 3](#)). Those forecasts are very uncertain, though, and growth that is significantly slower--or faster--cannot be ruled out.

Summary Table 3.

CBO's Current and Previous Economic Projections for Calendar Years 2001 Through 2011

	Forecast		Projected Annual Average	
	2001	2002	2003-2006	2007-2011
Nominal GDP (Billions of dollars)				
August 2001	10,366	10,876	13,355 ^a	17,145 ^b
January 2001	10,446	11,029	13,439 ^a	17,132 ^b
Nominal GDP (Percentage change)				
August 2001	4.0	4.9	5.3	5.1
January 2001	4.7	5.6	5.1	5.0
Real GDP (Percentage change)				
August 2001	1.7	2.6	3.2	3.2
January 2001	2.4	3.4	3.1	3.1
GDP Price Index (Percentage)				

change)				
August 2001	2.3	2.3	2.0	1.9
January 2001	2.3	2.1	1.9	1.9
Consumer Price Index ^c (Percentage change)				
August 2001	3.2	2.6	2.5	2.5
January 2001	2.8	2.8	2.6	2.5
Unemployment Rate (Percent)				
August 2001	4.6	5.2	5.2	5.2
January 2001	4.4	4.5	4.7	5.2
Three-Month Treasury Bill Rate (Percent)				
August 2001	3.9	3.8	4.9	4.9
January 2001	4.8	4.9	4.9	4.9
Ten-Year Treasury Note Rate (Percent)				
August 2001	5.3	5.6	5.8	5.8
January 2001	4.9	5.3	5.6	5.8

SOURCE: Congressional Budget Office.

NOTES: The August 2001 values for GDP and its components are based on data from the Bureau of Economic Analysis' national income and product accounts before the annual revision in July. Incorporating those revisions, which occurred after CBO had completed its forecast, could move budget projections in either direction but probably not by very much.

Percentage changes are year over year.

Year-by-year economic projections for calendar and fiscal years 2001 through 2011 appear in [Appendix B](#).

a. Level of GDP in 2006.

b. Level of GDP in 2011.

c. The consumer price index for all urban consumers.

Inflation, as measured by growth in the consumer price index for all urban consumers, is 0.4 percentage points higher for 2001 and 0.2 percentage points lower for 2002 than the estimates in the January forecast.

Short-term interest rates are projected to be lower in the next few years than CBO previously anticipated, but long-term rates are expected to be higher. Interest rates on three-month Treasury bills are forecast to be about a full percentage point lower for both 2001 and 2002 than the levels estimated in January. However, the interest rate paid on 10-year Treasury notes is projected to be between 0.3 and 0.4 percentage points higher than previously anticipated.

CBO does not forecast fluctuations of the economy beyond two years. Instead, it extends historical patterns in the factors--increases in the labor force, rising productivity, and the rate of national saving--that underlie the growth of potential GDP. After incorporating those patterns, CBO makes economic projections that extend three to 10 years out.

For 2003 through 2011, CBO projects that growth of nominal GDP will average 5.2 percent a year and that growth of real GDP will average 3.2 percent--levels slightly above those estimated in January. According to CBO's projections,

inflation in the 2003-2011 period will average 2.5 percent, which is similar to the rate that was anticipated last winter. Interest rates over the period will average 4.9 percent for three-month Treasury bills and 5.8 percent for 10-year Treasury notes, CBO projects--figures that are also similar to January's.

1. For a more detailed discussion of uncertainties in forecasting and their implications for budget projections, see Chapter 5 of Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (January 2001).

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